

MINUTES 2/11/15

SELF-INSURANCE PROGRAM BOARD MEETING

A meeting of the Self-Insurance Program Board of Trustees was called to order at 1:04 p.m., Thursday, March 6, 2014, in Personnel Conference Room #2 at 20 E. Main Street, Suite 130, Mesa.

MEMBERS PRESENT

Fenton Moran
Art Schenkel
Kelly Vorseth
Board Chair Kevin Thompson
Michael Kennington, CFO

MEMBERS ABSENT

OTHERS PRESENT

Mary Dellai, Board Secretary
Jan Ashley, Emp. Benefits Administrator
Irma Ashworth, Finance Director
Nitra Hawkins, Safety Svcs Administrator
Candace Cannistraro, Ofc of Mgmt & Bdgt Dir
Gary Manning, Human Resources Director
Debbie Spinner, City Attorney
Marc Steadman, Deputy City Attorney

Citizens Present

Matt Clark – City Council
Tracy Hurt, Human Resources
Alfred Smith, City Attorney's Office
Jim Smith, City Attorney's Office

Since the last board meeting there were two new members to the Board. Board member Kennington opened the meeting with introductions. The first order of business was to elect a Chair for the Board. Board member Mike Kennington nominated Board member Kevin Thompson to be the new chair. The nomination was seconded by Board member Art Schenkel. Board member Thompson accepted the nomination. The vote was unanimous in favor of the nomination.

Chair Thompson asked to review/approve the minutes from the March 6, 2014 meeting. He asked if there were any comments, questions, or concerns or changes to the minutes or if they could be approved as drafted. No changes were proposed. Board member Kennington proposed the minutes be approved. Board member Schenkel seconded the motion. Chair Thompson called for a vote. The vote was unanimous.

Chair Thompson acknowledged members of the public. Chair Thompson asked if there were any items from citizens present. There were no items from citizens present.

The next order of business was to hear a presentation and discuss the Public Property and Public Liability Trust fund, the Employee Benefits Trust Fund and Worker's Compensation Trust Fund and related Trust Agreement.

Debbie Spinner stated the role of the Board members would be to make a recommendation to the City Council regarding the financial viability of each of the Trust Funds for FY 15/16 adoption by the end of May for a final budget in June. The Board could make that recommendation at this meeting (if ready) or at a future meeting(s) as necessary. The Board is under no obligation to make the recommendation at this meeting unless ready to do so. The agenda has been prepared so that if the Board would be ready to make that recommendation they could do so. The City Council would take the Board recommendation into consideration during the upcoming budget discussions.

Debbie Spinner, as City Attorney, manages the Property & Public Liability Trust Fund. The Trust Fund was set up under City Charter and is intended to pay any claims for negligence, damage and injury caused by City employees or City of Mesa responsibility. She stated their office receives

approximately 360 claims/lawsuits per year for this Trust Fund. She gave several examples of how claims and lawsuits could originate and how claims are paid from this fund.

She explained litigation team costs, damages (settlements), liability and property insurance and Falcon Field Airport insurance are also paid out of this fund.

She referred the Board to review Exhibit 2 and explained claims can fluctuate greatly from year to year based on when the claim/lawsuit is closed/settled which could be approximately 6 months to four years after the submission. She explained the City is self-insured up to the first \$3 million for each claim that comes in. If the City resolves a very large case the amount could spike for that year based on expenses and the settlement/resolution.

Mike Kennington asked if the estimated cost for 14/15 is lower because we don't expect any large cases to close during this fiscal year. Debbie Spinner responded yes. Marc Steadman stated we are currently only at \$200,000 to \$300,000 in costs for the fiscal year at the six month mark and relatively small claims expected to resolve by fiscal year end; hence the lower estimate.

Debbie Spinner said the estimate for next fiscal year 15/16 is \$3 million – about an average year is anticipated for claims paid based on when we expect claims to resolve. Chances we are going up in anticipation of some large claims resolving next fiscal year to explain the change from this year.

The second largest expense for the Fund was insurance. She provided an Insurance Premium Costs handout breaking out the actual costs for the various insurance paid each year from the fund. She explained it is a competitive bid process for each of these coverages which is approved by the City Council. The abbreviation S.I.R. on the chart refers to Self-Insurance Retention level (how much City is responsible for each claim). She noted that the amount used to be \$2 million until FY 09/10 when it was raised to \$3 million. Sometimes it is in the City's financial interest to take on more liability/risk if it is anticipated there would be fewer claims between \$2 million - \$3 million rather than the cost of the insurance premium.

She explained each coverage. Excess liability pays for negligent claims against the City and its employees. Property insurance covers the City in the event a City owned property is damaged. We would pay the deductible and would make a claim for the amount of loss over the deductible to be covered by the property insurance. We insure approximately \$1 billion of assets.

The airport liability insurance covers Falcon Field only. Gateway airport is a separate legal entity and they purchase their own insurance. Airport liability insurance covers any negligence arising from the airport itself. Aircraft liability may arise from Mesa Police Department fixed wing aircraft or helicopters if there was an incident involving that equipment with damages. Debbie Spinner gave an example of when that could arise.

Chair Thompson asked if that covered the City-owned aircraft itself. Marc Steadman stated that it does and the line item should state Aircraft Liability and **Property** insurance. Chair Thompson asked if that insurance is expected to go up for 15/16 based on some recent claims. Marc said possibly but that Mesa doesn't make a lot of claims. Debbie and Marc discussed recent claims history.

Debbie Spinner explained the Museum of Fine arts insurance covers the artwork/exhibits at the museums as this would not fall under typical general liability policy coverage.

She explained Cyber risk covers the City and residents if confidential information is breached against identity theft. We just started buying this insurance approximately two years ago. Chair Thompson asked if this coverage would include the SCADA equipment recently purchased by Energy Resources to help prevent tampering with a breach of the control valves and the electric grid and impact residents. Debbie Spinner said the question would be asked if Mesa had proper security measures in place or if we were negligent. If we had proper controls in place and were not negligent then we should not be responsible for the damages. If we were negligent the claim would be from the liability insurance rather than the cyber risk coverage in the specific incident referred to by Chair Thompson.

Debbie Spinner stated the final component for insurance coverage is Broker fees. We anticipate the total cost of approximately \$1.4 million for FY 15/16 for all these insurance coverages and broker fees.

The last cost for the trust fund is the administrative costs for the litigation team at approximately \$1 million/year. She compared this cost to outside attorney fees where it is significantly less expensive for the City to have in-house counsel/staff. She said 98% of the claims are handled by in-house staff and outside counsel is used only in the case of conflict of interest, in the event of excessive workload (rarely), or if a certain level of expertise is required for a complex case and that expertise is not available with current staff.

This Trust Fund (Exhibit 1) is 100% funded by City of Mesa General fund and the Enterprise fund based on a ratio of where the claims originate. Expenses this year were less than anticipated. The total estimate for the PPL Trust fund for FY 15/16 will be \$5.5 million for all three categories.

Candace Cannistraro focused attention on the Property & Public Liability Trust Fund Expenses chart and explained the fluctuation in expenses from year to year and what to include for funding based on trending so far this fiscal year. She explained last FY 12/13 we were using a \$12 million fund balance the Board recommended reducing the level. Staff researched other cities and found inconsistent practices on trust funds. So we looked at claims history to come up with the targeted fund balance. We average about \$3 million per year but have some spikes of approximately \$7 million - \$8 million/year. We concluded we could lower the fund balance to \$10 million and that was part of the 14/15 recommendation for this trust fund. The contributions to this fund were reduced to bring the fund balance down to the \$10 million target.

Claims for FY 14/15 are coming in lower than anticipated based on forecast of \$1.2 million but had budgeted at \$3 million. Based on this trend, we will not need to make the entire \$5.4 million contribution to maintain \$10 million fund balance for FY 14/15 – we would only need approximately \$3.4 to maintain that \$10 million fund balance. Since that sets the fund balance for FY 15/16 at \$10 million, we would be going into the fiscal year needing a \$5.2 million contribution (based on estimated expenses) to keep the end of year fund balance target at \$10 million. Proposed recommendation language was stated in narrative document provided by Candace Cannistraro.

Mike Kennington asked if claims come in higher or unanticipated expenses arise, can we put in more than budgeted in this fund. Candace Cannistraro replied that the City can adjust contributions at any time as needed because it is 100% funded by the City and not funded through payroll as others trust funds we will discuss later. Having a \$10 million fund balance allows us to react in an emergency without affecting the overall budget since the fund balance could be drawn down rather than affecting operations dollars from the General Fund to make that contribution. Since we have never been over the \$10 million in the history of the fund, we could “plan” for the increase in contributions by drawing down the fund balance temporarily to cover costs and increase contributions the following year to restore the \$10 million target balance.

Chair Thompson asked to hear the other Fund presentations before making any recommendation.

Gary Manning gave an overview and purpose of the Employee Benefits Trust Fund and the Workers' Compensation Trust Fund. He explained some changes to the Employee Benefits Trust Fund since last time we met. The Employee Benefits Trust Fund as of 1/1/15 is no longer self-administered for medical and dental claims and flexible spending accounts. We went out for bid and now have third-party carriers to handle this work. In addition we opened our own Wellness Center to provide primary care facility for covered employees and dependents to ultimately reduce claims costs. Many employees had not previously gone to a doctor and we have already been able to identify some conditions that left unchecked could have resulted in much more serious potential high dollar claims to the Trust fund. It is a way for us to be preventive rather than reactive for medical needs.

Jan Ashley provided some highlights for the Employee Benefits Trust Fund umbrella. Significant changes increases/decreases over the past year are as follows:

- Progressed from around 12,200 members to 13,180 members (employees, eligible retirees, and eligible family members) an approximate 1,000 member increase over last year.
- Major core components: As of 1/1/15, medical, dental and flexible spending programs are now administered by third-party specialty providers. These providers handle claims administration, customer service, compliance and reporting requirements, arrangements with the respective networks and providers, verifications, etc. Members have favorably received these changes such as:
 - Increased customer service hours 24/7 for Flexible Spending Accounts
 - Reimbursements as appropriate through direct deposit mechanisms
 - 5 day week, up to 12 hours/day for medical dental customer service
 - Online accessible information, ability to make and get information on claims (paperless EOB's)
- A primary reason to go to the new process was anticipated claims cost savings over the long term due to a more efficient process and audits. Administrative costs for these administrative services should be neutral with the anticipated savings.

The Wellness Center opened in October 2014 for eligible employees and their dependents. It is already operating at or above our 80% target utilization rate; we have had 80 - 90% utilization almost since opening. In addition, we are providing health and wellness activities such as nutrition/exercise education and group disease management programs focusing on management of chronic disease states like diabetes, cardiac, blood pressure, cholesterol etc.

The main sources of funding for the Employee Benefits Trust are from City contributions, employee contributions, COBRA premiums, retiree contributions, state retirement system subsidies for retirees participating in City programs, and drug plan rebates. Main impacts to the trust for FY 15/16 are health care reform (PPACA) related charges/fees and federal excise taxes (PCORI and Reinsurance taxes). The total costs for the PPACA reinsurance fee is approximately \$500,000 in 2015. As of January 2016 significant IRS reporting obligations will be required (1094 and 1095 reporting) to verify that all eligible employees were offered affordable minimum value medical coverage and the timeframe during which these eligible employees actually had coverage in force during calendar year 2015 (and each calendar year thereafter). Trust cost will be incurred to implement and deliver this 1094/1095 reporting project.

Chair Thompson asked if this reporting is now required because of the health care laws. Jan Ashley replied that the reporting is required because of the health care laws around individual mandates to have health care coverage and employer mandates to offer at a minimum, affordable minimum value coverage to all full-time employees. The employer now has the obligation to verify which months of the year each employee (and member) has coverage and provide an annual statement (due each January) that reports on the previous 12 months of activity, for every individual in the plan. Individuals will be required to include their 1095 forms in their federal tax filing process. In addition an electronic file that tabulates all the information on the individual statements needs to be sent to the IRS by February each year.

Kelly Vorseth asked what the estimated cost of that would be. Jan Ashley said that no cost has been determined as of yet. Chair Thompson asked if there was a penalty for not providing the reporting. Jan Ashley replied that the penalty is likely to be similar to not providing a W-2 at \$100 per day per person for whom the information was not provided, but no guidance has been received from the IRS on that subject.

Art Schenkel noted there was an 8% – 9% increase in membership. He asked why there was not a proportional increase in claims costs related to the additional membership. Jan Ashley responded

that City and employee/retiree contributions (Trust fund revenue increases) cover some of the additional membership claims costs, and otherwise claims cost projection increases can be budgeted at a low % increase or maintained, because the Trust has received good outcomes on past years' claims costs containment strategies and expects new third party administration claims savings due to enhanced claims audit and edit capabilities, and introduction of new PPO network discounts on dental claims. Art Schenkel said asked if we expect these savings because we are no longer self-administered.

Fenton Moran said that he understood the 8% change in membership based on the eligibility with health care laws, but asked if we anticipate that continuing and another large increase in membership this year. Jan Ashley said the numbers may change categories but not increase much on the employee side of it; more of a change to retiree side as employees become eligible to retire. Difficult to project family sizes with new employees. For next year Kelly Vorseth asked to provide the board statistics on medical/prescription drug claims totals year over year and an average per member per year claims cost break out of employees/retirees.

Candace Cannistraro discussed the graph for FY11/12 and calendar year 2012 when cost containment measures were put in place. Because the budget is fiscal year and the benefits are calendar year you get a 6-month impact of whatever was put in place for the plan. In 1f1/12 we reset the base with the cost containment measures. Increasing at a slower pace than before. Claims for the past four years are 4.7%, 4.8% as opposed to 8% for medical national average. Estimate for 15/16 incorporates anticipated savings from dental plan. Kelly Vorseth asked if a financial analysis was done for the TPA. Gary Manning said that Delta Dental was given 6-months of City claims for a cost savings analysis and found that had we used Delta Dental at that time we would have realized a \$1 million savings on those claims for a 6-month period.

Kelly Vorseth asked if there was a "Cadillac tax" on our plans. Jan Ashley said 2018 is the first year that tax could commence, but we have taken a couple of steps to mitigate this possibility: 1) We terminated one plan design with very low utilization that had the highest probability for this tax impact. 2) We have engaged our consulting resources to provide a preliminary analysis and annual evaluation of trends. Based on the preliminary analysis, there should not be an impact in 2018 as plans are currently priced, designed and trended. Assuming a modest trend increase in plan costs going forward, the soonest we may have a potential impact could be in 2023 for active employee plans. We will keep abreast of that and recommend plan design changes in 2017 and beyond to mitigate or eliminate the "Cadillac tax" impact.

Kelly Vorseth asked if the federal excise that the Trust paid in 2015 has anything to do with the "Cadillac tax". Jan Ashley explained the Reinsurance Tax has nothing to do with the "Cadillac tax". She explained there are several methods to calculate the Reinsurance excise tax to potentially reduce the impact (various factor methods) and our actual Reinsurance Tax for 2015 came in lower than budgeted initially.

Mike Kennington asked Jan Ashley to explain the contribution strategy for part-time employees and what impact it had. Jan Ashley said it had relatively little impact because we have very few (approximately 60) part-time benefit eligible employees who work between 20 – 40 hours/week on average. We changed the medical plan contribution rate for part-time employees on the lowest cost medical plan to be similar to the full time contribution rate and allow the part-time rates to be affordable/compliant under the requirements of health care reform. The City could contribute approximately \$150 more per month for this very small group of employees (depending upon if PT employees enroll in the lowest cost plan and whether or not they have single or family coverage). That contribution strategy was the most cost effective approach to comply without changing every benefit plan contribution strategy for PT employees, and eligibility for sick and vacation accruals under current policies and procedures, etc. We have engaged consulting resources to re-evaluate this health care reform affordability analysis annually to make sure we remain compliant.

Kelly Vorseth asked about the graph where the employee contribution line bumps up in 13/14. Candace Cannistraro replied that retirees are increasing in our plan and they get a subsidy from the retirement systems toward their premiums. Employee population stays the same because they are replaced. When an employee retires the retiree population increases. In 13/14 there was an artificial decrease in employee (and City) premiums due to a "premium holiday". In 12/13 cost of claims went up only 4.8% due to cost containment but we had not adjusted the rates yet. In 10/11 we realigned the premium in a 3-year phase in of higher premiums. It only took two years to reset fund balance as planned.

The recommendation for 15/16 is to plan no overall premium increases (for the third year in a row), although there may be realignment of premiums between various plans and tiers. The City contribution strategy is to pay 80% of the base medical plan (known as the Choice Plan). The trust fund balance is sufficient and the current estimated City contribution is \$51.1 million of which 60% - 65% comes from the general fund with the rest coming from other enterprise funds.

The Workers' Compensation Trust Fund presentation followed. Nitra Hawkins explained this 100% employer funded, self-administered trust fund established in 1982 handles Workers' Compensation claims in house. It provides medical and temporary wage compensation benefits to City employees who have a work-related injury or illness.

It is funded by the City based on the department the employee works and that department's funding source (General Fund, Enterprise Funds, subrogation reimbursements, excess Workers' Compensation insurance reimbursements, and trust fund investment income).

This fund also carries excess Workers' Compensation insurance that would pay the costs above \$1 million for each claim. The Self Insurance Retention for this fund is at \$1 million since 2007. Claims costs above the \$1 million level would be reimbursed by the carrier.

The City has first lien rights if a claim is compensable if an employee is injured and gave examples of how this could occur. The program covers all employees and official volunteers under this program.

Expenses: medical and lost time wages, costs for outside legal counsel, provider network access fees, self-insurance surety bond costs, special and administrative taxes (ICA) to the state of Arizona, and excess Workers' Compensation and administrative costs. We utilize the Blue Cross Blue Shield provider network to be able to reduce medical expenses.

Chair Thompson asked how many cases were currently pending with outside counsel. Nitra Hawkins answered there are six cases pending.

Nitra explained we have a 4 year average of 421 new claims per year. The oldest claim is from 1985 and the newest was February 5 2013 with approximately 380+ per year ongoing.

Fenton Moran asked if we have an aggressive return to work program. Nitra Hawkins responded we have a very aggressive transitional work program to get the employee back to work as soon as possible following treatment. Gary Manning said we ask the department to try and find modified duty to get the employee back to work.

Kelly Vorseth asked if modified duty automatically stops the Workers' Compensation payment. Nitra Hawkins explained Workers' Compensation pays for full days and provides for lost time wages of 66 2/3% until they are back to work at least in a light duty status or full duty. When the employee is on light duty they still are entitled to their full wage and would accrue sick and vacation time as normal. We still would pay for medical expenses or other treatment necessary until they are able to return to full duty.

KV asked what happens if the employee is permanently injured and no longer able to perform their original job, but can perform a different job at lesser pay. The employee may be entitled the difference between the original job and their current job.

Workers' Compensation utilizes directed care through Blue Cross Blue Shield and utilization review to determine medical necessity for treatment to help keep costs contained. Effective 3/1/15 Rx pilot program for Workers' Compensation to seek additional cost savings.

Potential impacts to the trust 6% - 8% in medical costs factored into forecast. Potential increase in severity and type of claims. We look at accidents to determine if they were preventable and provide additional training, understand if the employee was not following rules, etc. Since 1985 to present we have 60 employees out and no longer able to perform the jobs they were hired to do.

Candace Cannistraro said the Workers' Compensation goes through the department budgets and payroll. Rates established at beginning of year and budgeted at department level based on the job and risk ratios provided by the state and apply our own rates for each job. The targeted fund balance is set at 100% of annual expenses. Over time there has not been a lot of fluctuation in this fund. We are able to change the contributions at any given payroll if we need to add to the fund balance. We try to not change the rate during the year as it does affect departmental budgets and year end estimates. This year claims were lower than anticipated (lower than budget). Estimate on fund balance will be higher than target and for FY 15/16 adjust rates to contribute less to bring target back down to 100% of expenses. Based on FY 14/15 contributions it is estimated there will be a reserve target of \$5.5 million with a proposed \$3.3 million contribution for FY 15/16.

Chair Thompson thanked the presenters and asked if there were additional questions or discussions. There were none. He asked if the Board was ready to make a recommendation based on the information provided.

The recommendations are as follows:

Property & Public Liability Trust Fund: Staff recommends the City contribution for FY 14/15 be set at a level to achieve a minimum of a \$10.0M ending reserve balance. The current projection is \$3.4M. Staff recommends including a \$5.2M City contribution in the FY 15/16 budget to achieve a minimum forecasted ending reserve balance of \$10.0M.

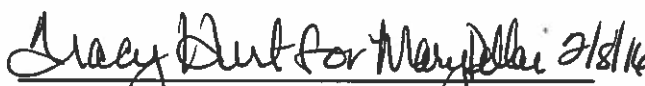
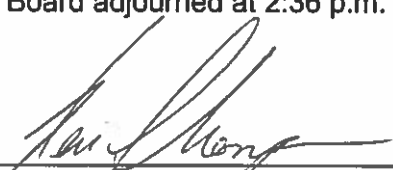
Employee Benefits Trust Fund: Staff recommends the City contribution to the EBT fund budgeted for FY 15/16 be based on current medical and dental premiums to continue in the benefit plan year 2016. The current estimate for the resulting City contribution is \$51.1M. The final budgeted contribution amount may differ slightly as the estimated number of employees/retirees is further refined during the budget process.

Worker's Compensation Fund: Staff recommends the continuation of the current practice to adjust rates annually unless a significant change in expenses occurs. Staff recommends setting the rates for FY 15/16 at a level to achieve a targeted ending reserve balance sufficient to cover the annual expenses. For FY 15/16, the reserve target is \$5.5M. The current estimate for the City contribution for FY 15/16 is \$3.3M. The final budgeted contribution may vary slightly from the recommendation as the adjusted rates are applied to budgeted salaries and the budget process has not yet been completed.

Mike Kennington moved that the Board take the recommendations of staff and present those to City Council for FY 15/16. Art Schenkel seconded the motion. The vote was unanimous for the recommendation.

The final agenda item was to schedule future meetings. The next meeting will be calendared for January 2016.

There being no further business, Chair Thompson moved that the meeting be adjourned. Art Schenkel seconded the motion. All concurred. The Board adjourned at 2:36 p.m.

		
Mary Dellai, Secretary to the Board	Kevin Thompson, Board Chair	
Date		Date
		2/8/16

c: Christopher J Brady, City Manager DeeAnn Mickelsen, City Clerk
Self-Insurance Trust Funds Board Members Mayor's Office